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CHILE: President Allende stands to profit from the ill-conceived military rebellion that collapsed less than three hours after it began yesterday morning.

The revolt was attempted by the Santiago-based Second Armored Battalion in the apparent hope that the rest of the military and the police would join. Instead, the bulk of the army and the carabineros came to the government's defense and the rebels surrendered when loyal troops arrived at the presidential palace.

Allende may now be able to purge known plotters and other enemies from the armed forces. Army commander Prats and other armed forces leaders will emerge with an enhanced public image as defenders of constitutional order. On the other hand, their chances of obtaining major concessions for returning to the cabinet may now be reduced. Allende could, therefore, solve his current political crisis by maneuvering the military back into the government on his own terms.

Yesterday's events may also strengthen Allende's hand in dealing with his increasingly obstreperous Communist and Socialist supporters. He can now claim to have survived an attempted military coup without the aid of their street brigades.

The abortive revolt certainly will be disheartening to those opposition elements who have been trying to provoke military intervention by fostering strikes, violence, and economic disruption. [redacted]

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WESTERN EUROPE: Reaction to the US-Soviet summit has focused on the consequences for the Western alliance of the trend toward closer US-Soviet relations and of the provisions of the agreement on prevention of nuclear war.

Most official reactions have been positive, but extremely cautious. Allied officials want more time to assess the implications of what they see as an obvious short-term success for US-Soviet bilateral relations. In general, the summit results have increased concern about the role Europe can play between the superpowers. They will also lend support to those who argue that Europe must speed the movement toward political unity in order to provide a framework for some kind of West European defense option.

The British official and press reaction has been generally positive. On 28 June, Foreign Secretary Home told Commons that the UK "welcomed with satisfaction" the summit outcome and judged that the interests of the alliance had been fully protected. He looked forward to the Conference on Security and Cooperation in Europe, however, as the testing ground for Soviet willingness to turn "high-sounding declarations" into practical improvements in East-West relations.

The French, not surprisingly, were upset by the summit. To Paris, the meeting strongly re-emphasized superpower dominance in international affairs and overshadowed the subsequent meeting between Brezhnev and Pompidou. Shortly after the final communiqué was issued, Paris officially stated that France remained outside "bloc politics" and would not be bound by the decisions of the superpowers. Privately, the Quai director of pacts and disarmament affairs said that the agreement on prevention of nuclear war tended to diminish the [redacted]

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Credibility of the US nuclear deterrent and suggested that the US would prefer a protracted conventional engagement in Europe to the early use of nuclear weapons. French press reaction was also generally negative.

West German officials are concerned that the agreement on the prevention of nuclear war might be construed as a "no first use" pledge that would limit the US response in the event of a conventional Soviet attack on Western Europe. Bonn has urged Washington to head off such interpretations with a prompt and unambiguous reaffirmation of the US commitment to a nuclear defense of Europe. The West Germans, just recently having hosted a Brezhnev visit themselves, have not explicitly criticized US-Soviet bilateralism. Official releases have nevertheless stressed the need for "early consultations" in NATO, and government officials have been anxious in private discussions about what they see as intensifying US-Soviet bilateralism.

The initial reaction from other allies has contained the same blend of satisfaction with the further improvement in US-Soviet relations along with apprehension over what this could mean for the alliance.

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Exchange Rate Changes Relative to the Dollar Since
the European Joint Float was Introduced on 19 March

(Figures in Percent)

	<u>7 May*</u>	<u>1 June</u>	<u>28 June</u>	<u>29 June</u>
Mark	-0.9	+5.6	+14.3	+16.2
Guilder	-2.1	+3.9	+10.3	+10.2
French franc	-0.4	+5.0	+9.9	+9.7
Sterling	+1.3	+4.6	+5.0	+5.0
Swiss franc	0	+5.8	+7.8	+11.3
Yen	-0.3	+0.1	+0.2	+0.2

**Dollar at strongest levels in recent months*

INTERNATIONAL MONETARY DEVELOPMENTS: The major European currencies remained strong against the dollar following the announcement of the re-valuation of the mark yesterday morning. The mark has now appreciated against the dollar by 17 percent since early May, when the dollar was showing some strength, and by about 50 percent since early 1971. The Swiss franc also moved up sharply against the dollar. The major question for dealers is whether the mark will continue to move up against the dollar and leave the other European currencies fairly stable, or whether these currencies will move up substantially in line with the mark.

Bonn's action places the mark 5.5 percent higher in terms of gold and Special Drawing Rights. This is about the same percentage change as against the currencies of France, Belgium, Luxembourg, the Netherlands, Norway, Sweden, and Denmark--the other participants in the European joint float--which will continue to operate according to existing rules. The value of the dollar in terms of marks will continue to be freely determined by market forces.

Bonn's decision yesterday came less than 24 hours after officials denied rumors of a revaluation. Finance Minister Schmidt, who spoke out against re-valuation on Thursday, admitted yesterday that the Bundesbank had to buy about \$900 million worth of European currencies Thursday, for a total of \$1.6 billion in the last two weeks or so, far more than previous market estimates. These inflows, which came mainly from Europe, were threatening Bonn's new anti-inflation program.

German officials, in fact, had not expected the program to have any significant impact on inflation until early next year, in any case; rapidly growing foreign orders for German industrial products are a serious threat to the effectiveness of the anti-inflation plan. The theoretical effects of

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revaluation--an increase in the price of German goods, reduction of import prices, and a decreased trade surplus--would take place only over the long-run. Indeed, the Finance Minister has cast doubt on prospects for any near-term reduction of the massive and growing trade surplus. Citing the present worldwide economic boom, he holds little hope for lower import prices or for a reduction in demand for German goods. Trade results for the month of May--withheld until after the revaluation announcement for fear of setting off new speculation--support recent estimates that the 1973 trade surplus might reach an unprecedented \$10-11 billion.

The revaluation will keep the joint float intact for at least a while longer. It already has brought the mark from the top to the bottom of the European band and relieved pressures on the band created by the mark's rapid climb. The revaluation, however, represents another windfall for money managers and speculators who bet on a mark revaluation. It may encourage them to try their hand again, thereby keeping the international currency markets unsettled. The mark may even remain the traders' favorite; it is little more than three months since it was last revalued.

Tokyo may now face the prospect of European pressure to have the yen appreciate further. Otherwise, Japanese products are likely eventually to enter European markets in even greater quantities. The Bank of Japan is able to manage the yen-dollar rate through its rigorous system of controls. Since March, the Bank reportedly has sold \$3 billion to keep the yen near its present rate. Heavy demand for dollars in Japan reflects the large volume of imports and capital outflows. Tokyo recently announced a record balance-of-payments deficit of \$1.185 billion in May, up from \$1.163 billion in April, in contrast to a small surplus in May 1972.

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VIETNAM: The Viet Cong's Provisional Revolutionary Government (PRG) does not intend to establish a capital in South Vietnam, according to Le Chan, North Vietnam's information chief in Paris. The PRG's goal, he said, is not to divide the South into two separate political "groups," but rather to have one "government of national concord" with a single capital.

Chan rejected the view that the PRG did not want to set up a capital for fear the South Vietnamese or the US would bomb it. He said US air intervention in South Vietnam was now unlikely and that the South Vietnamese would be discouraged by Communist antiaircraft installations.

There has been considerable speculation that the PRG was on the verge of establishing a capital in some area in the South under Communist control. Rumors that such a declaration would be made reached a peak just before the fourth anniversary of the founding of the PRG on 6 June, when Liberation Radio announced that several Communist and third-world countries had sent ambassadors to an undisclosed location in northern South Vietnam to present their credentials to the PRG.

If the Vietnamese Communists ever did intend to set up a PRG capital, there are several possible explanations for their failure to follow through. They may simply have decided that they had no site worthy of the designation, or Hanoi may have passed the word that establishment of such a capital was not consistent with its contention that Vietnam is one country. There is also a possibility that the Communists backed off as a result of some development in the Kissinger-Tho talks. At any rate, Le Chan says that Hanoi, which has never formally recognized the PRG, now has no intention of doing so, and the PRG may have to content itself with receiving diplomatic visitors in an undisclosed location in the South.

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EC-US: The EC Commission will meet on 2 July with a committee of member-state trade officials as part of an effort to get around French opposition to granting the US compensation for trade damage incurred as a result of the community's enlargement.

At this week's Council meeting, the French alone adamantly refused to reconsider the commission's present mandate that precludes negotiating any compensation with the US. Although some member-state officials believe that France will remain inflexible, others think it possible that Paris will permit the commission to explore terms of an improved EC offer with the US.

Whatever French intentions may be, the commission evidently plans to stretch its instructions from the council in order to elicit other member-state views on how the mandate might be improved. Although not overly sanguine about this tactic, commission officials say their efforts would be aided by an effective US rebuttal in GATT of the existing community case. The EC Council will again take up the compensation issue on 23 July.

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NORWAY-EC: The free trade agreement between the EC and Norway will come into force on 1 July when the first stage of reciprocal tariff reductions is introduced. The agreement will permit trade in industrial products to be conducted on a tariff-free basis, subject to appropriate safeguards. Customs duties for most products will be abolished over the next four years and, for certain sensitive Norwegian products--including paper, most ferroalloys, unwrought aluminum, and semi-finished aluminum products--over a longer period of time.

With the entry into force of this agreement, all the countries of Western Europe, except Finland--which has negotiated, but not yet signed a similar agreement--will be connected to the EC by preferential trade links. The US objects to certain aspects of these arrangements, maintaining that they are not fully consistent with GATT provisions regarding free trade areas and could impair the trade interests of the US. Thus far in the on-going GATT discussions, the EC has rejected the validity of US claims.

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